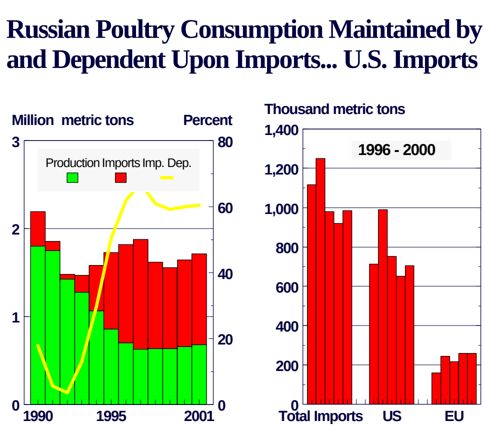
April 27, 2001

Russia: A Billion-Dollar Meat Import Market with No Clear Road Map for the Future

After reaching $2.5 billion as recently as 1997, Russian imports of poultry, pork, and beef slipped to $1 billion in 2000. With total domestic production of poultry, pork, and beef down by 58 percent over the 1990's, Russia had to turn to international markets to meet its domestic consumption needs, albeit sharply reduced due to economic distress. Although U.S. exports of poultry, pork, and beef also fell, the United States expanded its share of the total Russian meat and poultry market from 30.5 percent in 1997 to 33.1 percent in 2000, according to Russian import statistics. Going into 2001, the spread of bovine spongiform encephalopathy (BSE) in Europe and the emergence of foot-and-mouth disease (FMD) in several key supplying countries have dealt a one-two punch to reliable supplies and flows of pork and beef to Russia. However, poultry imports, dominated by U.S. suppliers, are expected to continue at the million-ton level.

Poultry Consumption Levels Sustained Through Imports



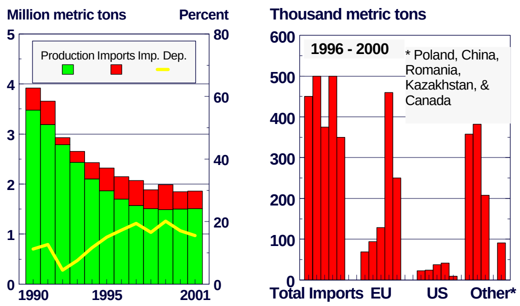
Poultry consumption in Russia has nearly escaped the drastic reductions seen in beef and pork consumption. Russia is one of the top destinations for U.S. poultry meat. Although Russian poultry production is forecast to increase by 3 percent to 0.7 million tons in 2001, recent production gains have not kept pace with demand. Total Russian imports of poultry are projected to grow by 5 percent to again surpass 1 million tons in 2001. The United States supplies much of Russia's poultry and products, and captured 72 percent of Russian poultry imports in 2000. U.S. exports in 2000 reached 643,000 tons and $326 million, virtually doubling U.S. 1999 exports.

On March 26, 2001, Russia placed an import ban on all EU poultry, meat, and livestock due to FMD. Although Russia on April 20 modified the ban to allow poultry from all EU members, U.S. producers are still well positioned to provide the leg quarters and drumsticks so favored by Russian consumers. Supplies from the EU have not exceeded 36 percent of imports since the early 1990's. Although Russia's import dependency remains at 60 percent of consumption, problems in commercial credit, feed delivery, and product processing continue to thwart efforts to rebuild the domestic poultry industry. For January-February 2001, U.S. poultry meat exports surged to $73 million, well above the $45 million in sales placed for the same period last year.

With the current Russian ban on European livestock and meat in place, a window of opportunity has opened for U.S. poultry exporters, especially since U.S. product is the most competitively priced source of animal protein on the Russian market.

U.S. Pork for Sausage Making Gains

Russia Pork Availability Down 50 Percent, Imports Maintain Significant Market Position, US a Minor Player

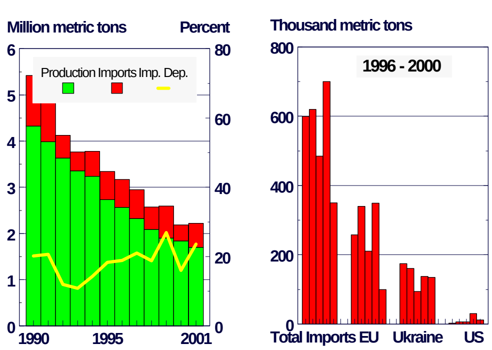


Russia's import dependency on pork has continued at near 20 percent of consumption. Throughout the latter half of the 1990's, the EU was its major supplier. In addition to FMD, several major factors may shift Russia's pork imports away from the EU. EU pork subsidies, a major vehicle for moving product to Russia, have temporarily ceased as EU market prices have fallen to competitive export levels. The subsequent removal of a subsidized product from the Russian market offers a new advantage for U.S. pork. While Russia on April 20 did amend its EU meat ban to allow table-ready meat from all EU members, pressure still remains to find alternative sources for fresh, chilled, and frozen pork. Major pork suppliers, such as Poland, Romania, and Kazakhstan, have a limited pork export availability. Russia has banned pork imports from China since June of 2000 due to their outbreak of FMD. U.S. exports are picking up this year, with January-February 2001 pork export values to Russia reaching $3.9 million, continuing the gains made in the previous quarter.

Russia's pork imports for 2001 are forecast to remain at 2000's level of 350,000 tons. Similarly, domestic pork production is projected to remain virtually unchanged at 1.5 million tons for the fourth consecutive year. Although U.S. pork exports to Russia were down by 84 percent from 1999's record $87 million to $14 million in 2000, U.S. producers may be able to capitalize on recent trade developments to capture additional market share. U.S. pork trimmings for sausage and picnic hams are becoming increasingly popular with Russian food processors, according to the U.S. Agricultural Counselor in Moscow.

...While Beef May Best Meet the Needs of Five-Star Incomes

Russia Beef Consumption Down 50 Percent, Production Continues a Decade-Long Slide... Imports "Steady" at 20 Percent of Use



Russia's beef import dependency has varied greatly in recent years. While falling to 16 percent in 2000, imports are expected to climb to 24 percent of consumption in 2001. Although the EU is Russia's main beef supplier, EU sales to Russia fell by 250,000 tons to a 5-year low of 100,000 tons in 2000. This decline was due to the temporary cessation of EU export subsidies due to falling product prices in the beginning of 2000 and the onset of the BSE crisis in late 2000. Should Russia lift the EU FMD ban on fresh, chilled, and frozen beef, the predicted EU "beef mountain" of competitively priced, BSE-free beef may once again find its way to Russian shores. Should the ban remain in place, Ukraine and Poland may attempt to expand sales, especially for low-priced beef variety meats, but their export availability is limited. Gains in exports from other BSE- and FMD-free suppliers (Australia, Canada, and Mexico) may occur, but are expected to be at a minimum due to poor delivery logistics and the record demand for imported beef in the United States.

Russia's beef production continues to fall as the industry faces declining returns. Production in 2001 is forecast to fall by 140,000 tons to 1.7 million tons. Although beef is more expensive than pork and poultry, Russian imports are expected to rise by 50 percent to 525,000 tons. U.S. beef exports to Russia reached their second highest level of $21 million and 12,000 tons in 2000, but were significantly lower than the 1999 record (food-aid year) exports of $70 million and 31,000 tons. For January-February 2001, U.S. exports of beef to Russia had fallen to $1 million, reflecting the absence of U.S. food aid and the presence of near record high boxed beef prices.

For more information on poultry, contact Alessandra McCormack at (202) 720-7066; on pork, Yoonhee Macke at (202) 720-8252; and, on beef, Roseanne Freese at (202) 720-7285; or contact them by email at DLP@fas.usda.gov